

Message Text

SECRET

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ACTION ARA-10

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O 132015Z FEB 76

FM AMEMBASSY PANAMA

TO SECSTATE WASHDC IMMEDIATE 6746

S E C R E T SECTION 1 OF 2 PANAMA 1145

STADIS////////////////////////////////////

FOR ASSISTANT SECRETARY ROGERS THROUGH ARA/PAN - NADEAU FROM BELL

EO 11652: GDS

TAGS: PFOR PN PO

SUBJ: PROPOSED LETTER TO PANCANAL AUTHORITIES

1. FULLY AGREE WITH YOUR PURPOSE IN SENDING LETTER ON PANCANAL FINANCIAL SITUATION AND RELATED CANAL EMPLOYEE MORALE PROBLEMS. SUGGEST LETTER BE ADDRESSEE TO BOTH VEYSEY AND PARFITT AND DELETEDREFERENCE TO DEPRECIATION SINCE IT IS MY UNDERSTANDING THAT NO MONIES PASS TO THE TREASURY BUT INSTEAD ARE USED FOR CAPITAL IMPROVEMENTS AND HENCE HAVE NO EFFECT ON THE COMPANY'S NET SURPLUS OR DEFICIT.

2. UNDERSTAND THAT GOVERNOR IS TO MEET FEBRUARY 17 WITH LABOR AND CIVIC COUNCIL REPRESENTATIVES TO DISCUSS POSSIBLE ECONOMY MEASURES.

3. REVISED DRAFT TEXT OF LETTER AND PROPOSED STATEMENT FOLLOW:

QUOTE DEAR VIC AND HAL:

I THOUGHT I WOULD SHARE WITH YOU A FEW REFLECTIONS THAT HAVE OCCURRED TO ME DURING AND SINCE THE JANUARY MEETING OF THE PANAMA CANAL COMPANY BOARD.

FIRST, AS TO FINANCES. YOU , THE BOARD, AND THE COMPANY HAVE BEEN
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WORKED INTO AN AWKWARD POSITION. IT SEEMS IMPOSSIBLE TODAY

SIMULTANEOUSLY TO:

- (A) COVER ALL EXPENSES, INCLUDING INTEREST;
- (B) KEEP TOLLS AT THEIR PRESENT LEVEL; AND
- (C) CONTINUE A VIABLE OPERATION.

YOU HAVE ALREADY CUT EXPENSES DRASTICALLY IN MY JUDGMENT. AS OUR DISCUSSION AT THE BOARD MEETING DEMONSTRATED, THE NEXT COST-REDUCTION ITEMS FOR CONSIDERATION ARE ITEMS WHICH WILL HAVE A SERIOUS EFFECT ON EMPLOYEE MORALE. MORALE IS ALREADY LOW. YOU WILL NEED THE BEST POSSIBLE EMPLOYEE MORALE OBTAINABLE IN 1976, SINCE THIS WILL BE A CRITICAL YEAR. YET THE NEXT ITEMS ARE THOSE WHICH ACTUALLY REDUCE PAY AND THUS HAVE A DISASTROUS EFFECT ON THE EFFICIENCY OF THE OPERATION -- ESSENTIALLY, THE ARBITRARY TERMINATION OF THE LONG-STANDING TROPICAL DIFFERENTIAL.

THE OTHER MEASURES WHICH WE WERE DISCUSSING ARE IN MY JUDGMENT NIT-PICKS. THEY WILL NOT SOLVE THE FINANCIAL PROBLEM BUT THEY WILL -- PARTICULARLY THE CLOSING OF SUPERMARKETS -- MAKE THE EMPLOYEES MAD AND SERVE TO EXACERBATE THE SENSE OF TENSION WHICH NOW AFFECTS THEM. THEY WOULD SEEM IN THIS CONTEXT TO BE IMPRUDENT AS TECHNIQUES OF MANAGEMENT. BUT THE MORE IMPORTANT THING, IF I UNDERSTAND OUR DELIBERATIONS AT THE BOARD MEETING, IS THE IMPOSSIBILITY OF DOING ANYTHING FURTHER OF ANY CONSEQUENCE TO ALLOW THE COMPANY IN FACT TO COVER ALL ITS EXPENSES, INCLUDING INTEREST ON THE ORIGINAL INVESTMENT. THIS MEANS THAT IT IS ESSENTIAL TO GET ON WITH THE TOLL INCREASE AS QUICKLY AS POSSIBLE.

IN ADDITION, IT SEEMS TO ME IMPORTANT THAT WE LEVEL WITH THE AMERICAN PEOPLE, THE CONGRESS, AND THE AMERICAN USERS OF THE WATERWAY AS TO THE PRECISE ECONOMIC CIRCUMSTANCES OF THE CANAL OPERATION. I ATTACH A SUMMARY OF WHAT I UNDERSTAND THE FACTS TO BE.

I WOULD RECOMMEND RELEASING SOMETHING ALONG THESE LINES AND PRESENTING IT TO THE CONGRESS.

I HAD A NUMBER OF CONVERSATIONS NOT ONLY WITH BOARD MEMBERS
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BUT WITH OTHERS WHILE I WAS IN PANAMA. IT IS OBVIOUS THAT THERE IS AN INCREASING SENSE OF "WE/THEY" AMONG THE EMPLOYEES OF THE CANAL COMPANY AND THEIR FAMILIES ON ONE HAND AND PANAMANIAN ON THE OTHER. WE CANNOT BRUSH THIS OFF. WE MUST TAKE IT SERIOUSLY, AS WARNING SIGNALS OF REAL TROUBLE AHEAD.

I WONDER IF THERE IS SOMETHING WE CAN DO NOW. CAN WE LEARN SOME PREVENTIVE LESSONS FROM THOSE IN MUNICIPAL GOVERNMENTS

WHO HAVE BEEN CONCERNED WITH URBAN VIOLENCE? ARE THERE
PREVENTIVE MEASURES WE CAN TAKE? WHAT ABOUT SOMETHING LIKE
THOSE WHICH HAVE BEEN TAKEN BY POLICE AND CITY AUTHORITIES IN
MANY CITIES OF THE SOUTH AND THE INDUSTRIAL NORTH TO CURB THE
POSSIBILITY OF VIOLENCE BEFORE IT HAPPENS--TECHNIQUES TO PROMOTE
COMMUNICATION, UNDERSTANDING, CONCILIATION AND SO FORTH?
I COMMEND TO YOU THE POSSIBILITY OF ASKING A FEW
EXPERTS ON INTER-PERSONAL COMMUNICATION TO GO TO PANAMA TO LISTEN
FOR A WHILE TO THE PEOPLE OF THE ZONE, APPRECIATE THE EXTENT
TO WHICH THE TWO COMMUNITIES ARE DRIFTING INTO HATRED, AND
MAKE A FEW SUGGESTIONS ABOUT WHAT WE CAN DO.

I KNOW YOU HAVE ALREADY DONE A GREAT DEAL. AND
GENERAL MCAULIFFE HAS MOVED RAPIDLY AHEAD TO TRY TO WARD OFF
DIFFICULTY BETWEEN THE MILITARY AND THE GUARDIA NACIONAL.
MY SENSE IS, HOWEVER, THAT WE NOW NEED THE BEST BRAINS IN THE
COUNTRY FOR THE PURPOSES OF "CONFLICT PREVENTION". IT IS NOT ONLY
IMPORTANT IN ITS OWN TERMS. AN OUTBREAK OF VIOLENCE IN PANAMA
WOULD HAVE TERRIBLE REPERCUSSIONS ON OUR FOREIGN
RELATIONS THROUGHOUT LATIN AMERICA AND THE WORLD.

WITH ALL GOOD WISHES,
SINCERELY, WILLIAM D. ROGERS

ATTACHMENT: SUGGESTED STATEMENT.

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ACTION ARA-10

INFO OCT-01 ISO-00 SAB-01 SS-15 SSO-00 L-03 INR-07 INRE-00

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FM AMEMBASSY PANAMA
TO SECSTATE WASHDC IMMEDIATE 6747

S E C R E T SECTION 2 OF 2 PANAMA 1145

STADIS////////////////////////////////////

STATEMENT

THE CANAL HAS HAD A SIGNIFICANT DOWNTURN IN TRAFFIC.

WE ESTIMATE WE HAVE LOST \$17 MILLION IN TOLLS AND DIRECTLY-RELATED REVENUES BECAUSE OF THE RECESSION IN WORLD SHIPPING. FOR THE CURRENT (1976) FISCAL YEAR, WE ARE PRESENTLY ESTIMATING TOTAL REVENUES, INCLUDING TOLLS, AT \$300.1 MILLION. THIS IS A REDUCTION OF ALMOST \$30 MILLION BELOW OUR ORIGINAL BUDGET ESTIMATE. WE ORIGINALLY ESTIMATED COSTS OF \$330 MILLION. NOW, BY STRINGENT ECONOMIES WHICH HAVE ALREADY AFFECTED EMPLOYEE MORALE, WE HAVE CUT PROJECTED COSTS TO \$315 MILLION.

THIS EROSION OF REVENUES WILL CARRY OVER INTO 1977.

CONGRESS HAS MANDATED THAT THE CANAL COMPANY SET TOLLS AT A LEVEL ADEQUATE NOT ONLY TO COVER OPERATING COSTS BUT TO COVER INTEREST COSTS RELATED TO THE ORIGINAL 1903-1914 COST OF BUILDING THE WATERWAY, A PART OF THE ANNUITY PAID TO PANAMA EACH YEAR, AND THE NET EXPENSES OF THE CANAL ZONE GOVERNMENT.

WE BELIEVE IT IS IMPORTANT FOR THE CONGRESS AND THE AMERICAN PEOPLE TO UNDERSTAND THE COMPANY'S JUDGMENT IN THESE CIRCUMSTANCES--THAT IT WILL NOT BE POSSIBLE TO COVER

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ALL THESE COSTS BY MEANS OF TOLLS AT THE PRESENT LEVEL.

WE HAVE INSTITUTED A SHARP AUSTERITY PROGRAM TO REDUCE UNNECESSARY EXPENSES INCLUDING ALL UNNECESSARY EMPLOYMENT. THE BOARD OF THE CANAL COMPANY JUDGES THAT ANY FURTHER CUTBACKS UNDER THIS AUSTERITY PROGRAM--EITHER IN TERMS OF SERVICES TO THE EMPLOYEES OR IN NUMBER OF EMPLOYEES--WILL BE COUNTERPRODUCTIVE. THAT IS TO SAY THAT THE COMPANY HAS NOW BEEN REDUCED TO MEASURES WHICH, WHILE HAVING NO SERIOUS EFFECT ON IMPROVING OUR NET POSITION FINANCIALLY, WILL HAVE A SERIOUS EFFECT ON EMPLOYEE MORALE.

THUS THE CONTINUED EFFICIENT OPERATION OF THE PANAMA CANAL IS AT RISK TODAY. THE COMPANY NEEDS, FIRST, THE MODEST INCREASE IN REVENUES WHICH WILL RESULT FROM THE INSTITUTION OF THE NEW ADMEASUREMENT RULES. MANAGEMENT AND THE BOARD OF DIRECTORS OF THE COMPANY BELIEVE THIS INCREASE IS ESSENTIAL TO SOUND AND EQUITABLE ADMINISTRATION OF THE CANAL AND TO LONGER-TERM IMPROVEMENT OF THE FINANCIAL CONDITION OF THE COMPANY.

IN ADDITION THE COMPANY IS PROCEEDING AS QUICKLY AS POSSIBLE TO RECOMMEND A GENERAL TOLL INCREASE TO THE PRESIDENT. OUR

JUDGMENT IS THAT THIS, RATHER THAN FURTHER SEVERE CUTBACKS ON EXPENDITURES, IS THE ONLY RESPONSIBLE AND RATIONAL ANSWER TO THE FINANCIAL PLIGHT OF THE COMPANY WITH ITS RESULTING ADVERSE EFFECTS ON CANAL EMPLOYEES.

IF THE CONGRESS IS OF THE VIEW THAT THE TOLLS SHOULD CONTINUE TO COVER NOT ONLY OPERATING EXPENSES BUT ALSO INTEREST ON ORIGINAL CANAL CONSTRUCTION COSTS, AND CANAL ZONE GOVERNMENT EXPENSES, THEN WE THINK PRUDENCE SUGGESTS THAT IT SHOULD BE THE WORLD'S SHIPPING WHICH ABSORBS THE COSTS RATHER THAN THE DEDICATED EMPLOYEES OF THE PANAMA CANAL COMPANY WHOSE LABORS TO MAKE THE CANAL CONTINUOUSLY OPEN, SAFE, AND EFFICIENT ARE BEYOND ARGUMENT.

THE BOARD IS MAKING THIS STATEMENT WITH THE CONCURRENCE OF THE UNITED STATES REPRESENTATIVES NOW NEGOTIATING A NEW TREATY RELATIONSHIP WITH PANAMA. THEY, AS WELL AS THE BOARD, DESIRE THAT THE TWO COUNTRIES ENTER INTO A NEW RELATIONSHIP--
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WHATEVER ITS NATURE--WITH THE WATERWAY IN A SOLID SITUATION FINANCIALLY. END QUOTE.
JORDEN

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